



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

June 12, 2008

President Jay Klawon called the regular meeting to order at 8:30 a.m. Thursday, June 12, 2008. Roll call was taken with all members of the Board being present. Board members and staff present were:

Roll Call:

Jay Klawon, President
John Paull, Vice President
Darcy Halpin, Member
John Nielsen, Member
Ray Peck, Member
Dianna Porter, Member
Terry Smith, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Legal Council
Scott Miller, Legal Council
Ursula Hatfield, Executive Assistant

OPEN MEETING

Michelle Anderson, Great West Retirement Services; Rick Ryan, Scott Moore, Jack Tretheway, Ed Cleary, and Keith Simendinger, members of the Montana State Firemen's Association; Tom Schneider, MPEA; Don Kinman and Linda Zander, AFSCME and Barb Quinn, Fiscal Services Bureau Chief; Kim Flatow, Member Services Bureau Chief; Kathy Samson, DC Education Services Bureau Chief; Diann Levandowski, Assistant Fiscal Services Bureau Chief, and Veena Kasarla, DC Accountant, joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the open meeting of May 8, 2008 were presented.

Moved: Ms. Dianna Porter moved to approve the minutes of the May 8, 2008 PERB Regular Open Meeting.

Seconded: Ms. Darcy Halpin

No public comment.

Vote: 7/0

Public Comment on any subject of interest not on the Board agenda: None given.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

Board Policy Requests for Actuarial Information – BOARD Admin 02 – Scott Miller

MPERA staff has made a minor change to the current Board Policy eliminating the reference to biennial actuarial valuations.

Motion: Mr. John Paull moved to uphold staff recommendation to adopt the proposed policy as amended. The amendment takes out the requirement that an actuarial valuation be conducted every two years. Statute provides an annual valuation.

Second: Mr. Terry Smith

No public comment.

Vote: 7/0

Administrative Rule Re-write – Melanie Symons

Ms. Symons has led the project of rewriting and reorganizing all MPERA's rules. The changes have been reviewed with the entire management team. MPERA staff is requesting Board approval on the content of the rule changes. The plan is then to complete the reasonable necessity statements and statute references, organize the rules and proceed through the rule amendment process. MPERA is striving for an effective date of August 28, 2008.

Motion: Mr. Terry Smith moved to approve that rule 2.43.427 be amended to provide that a member must be reinstated to employment in order to receive service credit for lost time. If reinstatement does not occur, service credit will not be awarded.

Second: Mr. John Nielsen

Mr. Tom Schneider, MPEA, would like good communication regarding this rule. All parties should know when they go into arbitration cases and start settlements that Rule 2.43.427 needs to be taken into account. This would affect the way the settlement is structured. Ms. Minnehan stated that we could do a separate rule notice to draw more attention to this issue.

Vote: 7/0

Motion: Mr. Terry Smith moved to adopt the Proposed Rule Package as presented, with 2.43.427 requiring return to employment in order for service credit to be awarded for lost time.

Second: Ms. Darcy Halpin

No public comment.

Mr. Paull thanked the staff for their work on the rules.

Vote: 7/0

Legal Contracts – FY 2009 – Scott Miller

Updated contracts with our outside tax counsel, ICE Miller and Agency Legal Services have been drafted for FY 2009.

Tax Consultants – ICE Miller

ICE Miller provides valuable assistance with our plan qualification status as well as provides tax expertise on plan distributions. Mr. Scott Miller has drafted an addendum to the contract for tax counsel between the Board and ICE Miller. The contract is effective for fiscal year 2009. Outside legal counsel must be approved through Legal Services Review Committee. The committee has approved contracting with ICE Miller.

Motion: Mr. John Nielsen moved to uphold staff recommendation of the proposed addendum to the ICE Miller contract extending the termination date until June 30, 2009.

Second: Ms. Dianna Porter

No public comment.

Vote: 7/0

Agency Legal Services

MPERA has an interagency agreement with the Department of Justices' Legal Services Bureau for legal advice and representation when we need to augment legal services (i.e. hearings officers in contested cases, conflicts of interest). This contract is also effective for fiscal year 2009.

Motion: Mr. John Paull moved that the Board approve the Interagency Agreement between the Board and the Agency Legal Services Bureau, Legal Services Division of the Montana Department of Justice, for the period from July 1, 2008, through June 30, 2009.

Second: Ms. Darcy Halpin

No public comment.

Vote: 7/0

Proposed Budget – FY 2009 - Barbara Quinn

The Board approves the budget annually. Each year MPERA reviews the allocation process to ensure we are equitably charging expenses across programs. MPERA has made an adjustment to

the allocation process this year. Ms. Quinn presented and explained the process. This year's budget includes items that will assist us in efforts towards advancement in services and the way MPERA provides services, safeguarding our data and processing technologically. The budget includes the addition of three new positions: a records manager (for the entire year) a project manager (for seven months) and an additional IT programmer (for two months). Ms. Quinn stated that she just received the figure for State Compensation fees which she had under-budgeted. With the new figure, the total budget is \$4,712,654 – 77% DB plans, 9% DC, 7% 457, 7% DB Education and 0.5% DC Education. In the DB plans, the anticipated expenses are projected to be \$341,797 under the 1.5% of the cap of projected benefits.

Motion: Mr. John Paull moved to approve of the Fiscal Year 2009 Budget as amended with the updated State Workers Comp fees.

Second: Ms. Darcy Halpin

No public comment.

Vote: 7/0

Out-of-State Travel Authorizations

The Board approves all out of state travel. Both of these travel requests are for FY 2009 and are included in the proposed budget.

GFOA Training – Diann Levandowski

This is a 2.5 day Intermediate Governmental Accounting class for Ms. Diann Levandowski, Assistant Bureau Chief. The training is in Minneapolis, August 25-27.

Motion: Mr. Terry Smith moved that Ms. Levandowski be allowed to attend the Governmental Finance Officer's Association Intermediate Governmental Accounting class August 25 – 27, 2008 in Minneapolis, MN.

Second: Ms. Darcy Halpin

No public comment.

Vote: 7/0

NAGDCA Conference – Kathy Samson and Melanie Symons

The National Association of Government Defined Contribution Administrators, Inc (NAGDCA) annual conference in September 13-17 in Baltimore, MD. Kathy Samson, DC and Education Bureau Chief and Melanie Symons, Legal Counsel have been our representatives at past conferences. They are interested in attending this year. This conference provides workshops on timely topics as well as opportunity to network with peers across the nation. President Klawon brought up that a PERB member should also attend this conference with Ms. Samson and Ms. Symons. Mr. Peck stated a concern with approving a conference just because we have always

attended. Due to the rise in travel costs, Mr. Peck would like to hear the reasons why this conference or any other conference should be attended. President Klawon and Mr. Smith have attended this conference in the past and attested to the importance of attending this conference. Ms. Samson and Ms. Symons also attested to the important information available at this conference. Ms. Minnehan stated that this conference has helped with educating MPERA staff as well as PERB members in the Defined Contribution arena.

Motion: Mr. Terry Smith moved that Kathy Samson and Melanie Symons be allowed to attend the NAGDCA conference and two PERB members in Baltimore, MD, September 14-17, 2008.
Motion dies due to lack of second.

Motion: Mr. John Nielsen moved that Kathy Samson and Melanie Symons be allowed to attend the NAGDCA conference and one PERB member in Baltimore, MD, September 14-17, 2008.

Second: Ms. Darcy Halpin

No public comment.

Vote: 6/1 with Mr. Ray Peck voting nay.

PERS Local Government Coverage Contract – Sheridan Daniels Special Education Cooperative

Staff has reviewed and approved Sheridan Daniels Special Education Cooperative's request for PERS coverage.

Motion: Mr. John Paull moved the approval of the contract for PERS coverage between the Sheridan Daniels Special Education Cooperative and the Public Employees' Retirement Board.

Second: Mr. Terry Smith

No public comment.

Vote: 7/0

Schedule Legislative Committee Meetings – Ray Peck

MPERA is preparing for the 2009 Legislative Session. MPERA is working in-house and meeting internal deadlines with the budget office and SAVA. SAVA is meeting June 30 and July 1, 2008. MPERA staff would like to schedule a legislative committee to receive input and provide a status report prior to the July Board meeting. EIAC meetings Wednesday, July 9, 2008 1 p.m. to 4 p.m. Staff is tentatively suggesting Wednesday, July 9, 2008 at 4:30 p.m.

Motion: Mr. Ray Peck moved to uphold staff recommendation holding a Legislative Committee Meeting Wednesday, July 9, 2008 at 4:30.

Second: Mr. Terry Smith

Vote: 3/0

Offsite Meeting Plan – Jay Klawon

In the past MPERA has attempted to reach members outside of the Helena area by arranging board meetings in other cities. We haven't had an offsite meeting in the last few years. President Klawon has expressed interest in planning an offsite meeting. Some of the cities mentioned were Bozeman, Miles City, and Hamilton. President Klawon suggested that six cities be put in a "hat" and one be pulled for the offsite city. Mr. Nielsen pulled Libby as the offsite location; Mr. Smith pulled Havre as the alternate location.

Motion: Mr. John Nielsen moved to have an offsite PERB meeting in Libby at a later date and time, with Havre as an alternate location.

Second: Ms. Darcy Halpin

Vote: 7/0

Board Education – Governmental Defined Contribution Plans – Melanie Symons

Ms. Symons provided a history of MPERA's PERS-Defined Contribution Retirement Plan (PERS-DCRP). She will also be presenting this topic at the NAPPa annual conference. The 1997 Legislature required an Interim Committee study of new plan designs. The 1999 the Legislature adopted the DC plan. Due to plan documents, trust agreements, IRS qualifications and investments and transfer education, the effective date was July 1, 2002. The DCRP plan structure allows the participant a one-year election window, which is a one-time irrevocable election. If an election is not made the DB plan is the default. Ms. Symons identified issues that hindered the DCRP: 1.) the collapse of the stock market in 2001-2002. 2.) Enhancements to the DB Plan, such as the change in GABA. 3.) The one year election window and 4.) Default to the DB Plan. Some items Ms. Symons would suggest to those wanting to implement a DC plan: 1.) Extend implementation period-time is needed to put everything into place. 2.) Fund the start-up costs of the DC Plan. 3.) Identify fees. 4.) Explain to the members the remaining DB liability. 5.) Communication regarding the different option. 6.) Education, education, education.

401(a)/457 Fee Structure – Kathy Samson

Ms. Samson presented the fees are structure in both the PERS-Defined Contribution Retirement Plan (401(a)) and the State's Deferred Compensation (457) Plan. In general, both plans have the three types of fees: 1) Investment management fees, 2) Recordkeeping fees and 3) Plan sponsor fees. We are the plan sponsor – plan sponsor fees are the administrative fees we incur by offering the plans.

PERS Defined Contribution Retirement Plan

1.) Investment Management Fees. Per the Board's adopted Investment Policy Statements, funds with front or back end load fees are not to be considered and a fund's expense ratio (internal expense charge plan any 12(b)-1 fee) must be no greater than the mean for the fund's peer group. 2.) The Board contracts with Great West Retirement Services (GWRS); for recordkeeping services. GWRS was obtained through competitive bidding process (Request for Proposal) required by state law. The contract is effective July 1, 2007 and terminates on June 30, 2012. Annual fees are \$57.00 for each participant in either the 457 Plan or the 401(a) Plan, or both. 3.) MPERA Administrative Fees are received annually. Effective July 30, 2007, the fee was set by the Board at 25 basis points annually. The DCRP also has employer forfeitures. Non-vested (less than five years of service) members who refund, forfeit their employer contributions. Employer forfeitures are used to pay MPERA administrative expenses.

457 Deferred Compensation Plan

The 457 fee structure for 1.) investment management fees and 2.) recordkeeping fees are the same as DCRP. 3.) MPERA Administrative Fees are wrapped in "graduated" asset based fee structure. Effective June 30, 2004, 1.) Flat dollar fee: \$1.25 per quarter/\$5.00 per year. 2.) Annual asset based fee: (up to) \$20,000 – 35 basis points; (next) \$20,001 - \$50,000 – 25 basis points; (next) \$50,001 - \$100,000 – 15 basis points and \$100,001 - 00 basis points. Great West Retirement Services assesses the fee quarterly; determines their contracted fee for the quarter; retains their fee and returns the remaining amount to MPERA.

Verbal Update – EIAC Meeting – Kathy Samson

EIAC met Monday, May 19, 2008. Our consultant, Wilshire, presented some information to EIAC. EIAC will be determining a Qualified Default Investment Alternative (QDIA), primarily in the DCRP plan. The Pension Protection Act (PPA) established regulations require Qualified Default Investment Alternative. The intent is to protect participants by ensuring DCRP plans were not defaulting into company stock then the company going bankrupt. The qualifications or criteria for a Qualified Default Investment Alternative are a balanced fund, target date fund and discretionary managed accounts. EIAC will be looking into including auto-enrollment, and the current investment structure to ensure the best structure for participants. The next EIAC meeting will be July 9, 2008 at 1 p.m.

Verbal Update – MPERA Staffing – Roxanne Minnehan

DB Accounting Clerk has been filled by Lindsay Thompson. Lindsay started Monday June 9, 2008. Lindsay has a BA in history and political science and a Masters in American and East Asian history.

Education Specialist has been filled by Angelia Molyneaux. Angel will start Monday June, 16, 2008. Angel has worked for Helena's Police Department as the Communication Officer and presented community 911 training and training at the Law Enforcement Center.

Data Entry was filled by Ann Nydam, our File Clerk.

Receptionist, interviews have been conducted. Offer is pending.

File Clerk has been posted internally.

Administrative Support, Member Services is a new position and a job profile has yet to be finalized.

Disabilities Examiner, Katie Linjatie's last day will be Thursday June 19, 2008.

Verbal Update – Board of Investments (BOI) – John Paull

The Board of Investments (BOI) met May 13-14, 2008 in Billings. The asset allocations for the new policy statements for Retirement Fund Bond Pool, Domestic Equity Pool and Montana International Equity Pool were discussed. These statements show the objectives for the asset allocations, roles and responsibilities of the Board, CIO and staff, the investment consultant is RV Kuhns, and the external managers and any and all legal requirements. The Fixed Income Portfolio Manager started Monday, May 12, 2008. The RFP that was released back in March in the Fixed Income is down to a finalist for an External Fixed Income Manager. \$250,000,000 – 750,000,000 will be allocated to fund these categories. The returns for the Fixed Income Category for one quarter was +1.37%, nine months +6.61% and one year +6.38%. Montana International Equity Pool market value is currently \$1.4 billion, returns for last quarter -9.8%, nine months -8.59%, one year -0.77%. Montana Domestic Equity Pool (MDEP) the new MDEP policy removed all references to the internally managed portfolios (these were managed by BOI staff). As of May 2008 external managers manage the MDEP. Returns for MDEP last quarter -10.50%, nine months -12.09% and one year -6.57%, the market value is \$3 billion. The Montana Private Equity Pool market is \$734 million, returns for the last quarter +2.44%, nine months +9.53% and one year +16.34%. Recent new commitments to this pool totaled over \$60 million. The Montana Real Estate Pool recent new commitments to this pool totaled \$35 million; returns for the last quarter +1.92%, nine month +4.61% and one year +7.64%. The Public Equity Manager Evaluation Policy, external managers are limited to a seven year contract with the ability terminate, but their performances will be compared to the relevant benchmarks. BOI staff will conduct reviews of these managers and if their performances do not meet the criteria of the policy the managers will be put on a watch list. The BOI's Chief Investment Officer, Clifford Sheets, may terminate a manager at any time for any reason deemed necessary. Currently on the watch list is Goldman Sacs Large Cap Enhanced with -7.75% returns last year, Western Asset Large Cap Enhanced with -22.33% returns last year and Principle Global Large Cap Growth with -1.16% returns last year. Hedge funds were discussed at the BOI meeting. The BOI issued a Request for Proposal (RFP) for hedge fund managers, without making any commitments to fund managers. The RFP will permit staff to gather information in order to make a recommendation to the BOI regarding this asset class. BOI discussed the two guests at the last BOI meeting. One guest, Bob Maynard of the Idaho PERS said they do not invest in Hedge Funds. The second guest, William Atwood of the Illinois BOI said they do invest in hedge funds.

Verbal Update – Litigation – Melanie Symons, Scott Miller

Mr. Miller and Ms. Symons didn't have anything new to address to the Board.

Next SAVA Meeting

June 30 – July 1, 2008

Next EIAC Meeting

July 9, 2008 at 1 p.m.

Next Board Meeting

July 10, 2008

Montana State Firemen's Association Annual Convention

July 9 – 11, 2008 in Great Falls, MT

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING



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PUBLIC EMPLOYEES' RETIREMENT BOARD

June 12, 2008

President Jay Klawon called the closed meeting to order at Thursday, June 12, 2008. Roll call was taken with all Board members being present. Board members and staff present were:

Jay Klawon, President
John Paull, Vice President
John Nielsen, Member
Ray Peck, Member
Dianna Porter, Member
Terry Smith, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Legal Counsel
Scott Miller, Legal Counsel
Kim Flatow, Member Service Bureau Chief
Ursula Hatfield, Executive Assistant

MINUTES OF CLOSED MEETING

The minutes of the regular closed meeting of May 8, 2008 were presented.

Motion: Ms. Darcy Halpin moved to approve the minutes of the April 10, 2008 PERB Regular Closed Meeting.

Second: Ms. Dianna Porter

Vote: 7/0

Finalized Service Retirements Disability Benefit Payments - Kim Flatow

Motion: Mr. Ray Peck moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum.

Second: Mr. John Nielsen

Vote: 7/0

Contested Cases

Informal Reconsideration – PERS, Retirement Effective Date Appeal, SV – Kim Flatow

SV listened via telephone to the Board discussion, she was informed that she couldn't respond nor ask any questions at this hearing.

SV filed an application to retire from her employment with her employer as of January 31, 2008. In April 2008, MPERA became aware that SV had a pre-existing agreement with her employer for a continued association after her January 31, 2008 termination date via a retainer agreement. SV did not work in February but did work several hours in March for her employer. She did not receive her retainer payment for February until March. SV had a pre-arranged agreement to be available to answer any questions if she needed. Staff recommends retirement effective date cannot be prior to May 1, 2008. SV must repay the retirement benefit for February, March and April.

Motion: Mr. John Paull moved to uphold staff recommendation that SV had not terminated her employment until the end of April and her retirement effective date must be May 1, 2008. She must repay the retirement benefit received for February, March and April 2008.

Second: Mr. John Nielsen

Vote: 7/0

Informal Consideration – PERS, Disability Appeal, MB – Kim Flatow

Mr. Nielsen recused himself and left the room for the discussion.

MB was initially approved for disability with annual review in January 2006. In reviewing his medical condition, MB was requested to appear at an appointment with physicians in Missoula. As a result of that examination, it was the decision of the Board that MB was able to return to work. In accordance with administrative rules, his disability benefit was cancelled as of November 1, 2007. MB appealed the Board's decision about his medical condition. Further medical evaluations by MB's own physician determined that MB is able to return to employment. At this time, he is requesting to receive his disability benefits from November 2007 through May 2008. Staff recommends the monthly benefit must be terminated on the first day of the second month following the Board meeting, according to administration rule.

Motion: Mr. Terry Smith moved to deny request for disability payments for November 2007 through May 2008.

Second: Mr. Ray Peck

Vote: 6/0, with Mr. Nielsen recusal.

Retirement Report

- Disability Claims/Reviews: Katie Linjatie

- MG is 56 years old with 7 years, 5 months services in PERS. MG was diagnosed with post anterior fusion of C4-C5; C5-C6 with screws placed at C7, and occipital neuralgia. Dr. Mitgang noted MG has had multiple surgical procedures on his neck and has tried to treat occipital neuralgia. Dr. Mitgang and staff state he can no longer do heavy work. Staff recommends approval of disability benefits without annual review.

Motion: Mr. John Paull moved to approve request for disability without annual review for MG.

Second: Ms. Darcy Halpin

Vote: 7/0

- SM is 55 years old with 13 years, 11 month services with PERS. SM was diagnosed with hypertensive intracerebral hemorrhage with deficits. His prognosis is poor. Dr. Mitgang noted that SM has a dense left hemianopsia, his arm almost non-functional and a left homonymous hemianopsia (can't see things in his left visual field of both eyes). His speech is slow, reading is slow and laborious. He is able to feed himself, operate a wheelchair but needs maximum help for ambulation (walking). Dr. Mitgang and staff recommend approval of disability without annual review.

Motion: Mr. John Paull moved to approve disability benefits without annual review for SM.

Second: Ms. Darcy Halpin

Vote: 7/0

- BM is 47 years old with 8 years, 7 months service with PERS. BM was diagnosed with chronic myelogenous leukemia, cancer of the white blood cells and bone marrow. His prognosis is poor. Dr. Mitgang noted that BM cannot make it through a full day due to fatigue and general weakness, due to medication. Dr. Mitgang and staff are recommending approval of disability without annual review.

Motion: Mr. John Paull moved to approve request for disability benefits without annual review for BM.

Second: Ms. Darcy Halpin

Vote: 7/0

- SM is 42 years old with 16 years, 9 months services in PERS. SM was diagnosed with cervical cancer with metastasis. Her prognosis is guarded. Due to continued fatigue and pain Dr. Mitgang and staff are recommending approval of disability without annual review.

Motion: Mr. John Paull moved to approve request for disability without annual review for SM

Second: Ms. Darcy Halpin

Vote: 7/0

- GS is 55 years old with 8 years and 11 months service in PERS. GS was diagnosed with post lumbar decompression and obesity. His prognosis is progressive deterioration of back and knees. Dr. Mitgang noted that GS has had some improvement due to having arthroscopic surgery but needs a total knee replacement. Dr. Mitgang and staff are recommending approval of disability without annual review.

Motion: Mr. John Paull moved to approve request for disability without annual review for GS.

Second: Ms. Darcy Halpin

Vote: 7/0

Contested Case/Litigation Updates – Melanie Symons, Scott Miller

Mr. Miller and Ms. Symons had nothing new to address the Board.

Actions on closed items motions made at reconvened open meeting.

Minutes of Closed Meeting

The minutes of the regular closed meeting of May 8, 2008 were presented.

Motion: Ms. Darcy Halpin moved to approve the minutes of the April 10, 2008 PERB Regular Closed Meeting.

Second: Ms. Diann Porter

Vote: 7/0

Finalized Service Retirements Disability Benefit Payments - Kim Flatow

Motion: Mr. Ray Peck moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum.

Second: Mr. John Nielsen

Vote: 7/0

Informal Reconsideration – PERS, Retirement Effective Date Appeal, SV

Motion: Mr. John Paull moved to uphold staff recommendation that SV had not terminated her employment until the end of April and her retirement effective date must be May 1, 2008. She must repay the retirement benefit received for February, March and April 2008.

Second: Mr. John Nielsen

Vote: 7/0

ADJOURNMENT

There being no further business before the Board, Ms. Darcy Halpin moved to adjourn the meeting, President Jay Klawon seconded. All voted aye, next regular meeting will be July 10, 2008. Meeting adjournment at approximately 1:00.

New Board Member Orientation

An orientation session was held for Darcy Halpin and Dianna Porter. Management team and the following Board members participated Ray Peck, John Nielson, John Paull.